



You Need Sewers in Your Community

Environmental Assistance Office fact sheet

8/2002

You need a central sewer system when soils in your community are not suitable for drainfields, a normal condition for Missouri; or when homes and businesses are close enough and numerous enough to make a central system economically feasible. You are long past due for a central sewer system if the county or city health department has started to cite property owners for sewage violations, if real estate agents refuse to represent some properties for sale or if bankers refuse to lend money to potential buyers of properties. This scenario is becoming common across Missouri.

What are your options to solve sewage problems?

1. Property owners can try to build functional on-site systems. Sometimes this is possible, but space can be limiting and systems can be costly. If that is the case, this option is not recommended.
2. Your city, town, village or county can invite the electric cooperative that serves your area to build and run a sewer system for you. Cooperatives recently received federal authority to provide sewer and other services so few are doing it so far, but it is worth checking into. This option is so new, it will not be discussed further here.
3. Your city, town, village or county can first build a wastewater treatment system, then build trunk and collection sewers as they are needed. This option may lack adequate planning resulting in a treatment system that is too large or small and that is difficult to pay for. This alternative is usually not recommended.
4. Your city, town, village or county can establish the organizational, management and financing structure, then plan and build the overall sewer system in an organized fashion. This is usually the preferred option.

How do you get started with options 3 or 4?

1. Find a project **leader**, designate a team. If your leader and team are energetic and good at informing people about the benefits and costs of the system, be prepared to work for two, three or more years to get the project completed all the way through construction. If they are not energetic and good leaders, the project probably will not materialize.
2. Assemble consultants to help you plan, organize, design and finance your sewer project. Such consultants can come from Department of Natural Resources' Environmental Assistance Office, your regional planning commission or council, funding agencies, consulting engineers, legal counsel, professionals from the community and others.



3. Order the free book Environmental Planning for Small Communities (publication number EPA/625/R-94/009) and ask about free newsletters and other assistance materials for communities embarking on sewer projects:

U.S. Center for Environmental Research
Information Publications
26 West Martin Luther King Drive
Cincinnati, Ohio 45268
(513) 569-7562

4. Use self-help techniques to maintain control of your project and minimize costs. Order the Self-Help Handbook, \$24.95 in late 1996, and ask about free newsletters and other assistance materials:

The Rensselaerville Institute
Rensselaerville, NY 12147-9998
(518) 797-3783

5. Inform yourselves about sewer system alternatives and how system designers and other communities have addressed the problems you now face by gathering information, subscribing to free newsletters and the like:

National Small Flows Clearinghouse
West Virginia University
P. O. Box 6064
Morgantown, WV 26506-6064
(800) 624-8301

6. Do initial organizational and project planning, make cost estimates and scout for grant and loan opportunities.
7. Through public meetings and information efforts, find out if the community really wants the sewers at the projected costs. If your project may be financed or managed by a sponsor, such as the city or county in which the project is located, or the rural electric cooperative, make sure the desired sponsor is interested in sponsoring your project.
8. Use ballot or petition efforts and court actions to authorize bonds, form a sewer or special assessment district, if needed, and authorize the project.
9. Select and hire a consulting engineer and other professionals.
10. Obtain information about alternative technologies from the local government assistance unit and your consulting engineer.
11. Produce an engineering report and apply for funding.
12. When you obtain required funding commitments, design, permit, bid and build your project according to the requirements of the funders.
13. Collect enough user charge and tax assessment money, operate your system correctly, make your payments on time and enjoy the rewards of your efforts.

Where can you get help?

1. Department of Economic Development Community Development Block Grants (CDBG), (573) 751-4146. Generally, sewer systems are financed with infrastructure grants. CDBG has a low-to-moderate income (LMI) requirement, meaning the project must provide or retain jobs for low-to-moderate income people, or the project must directly benefit low-to-moderate income households. The annual application deadline is March 15. These are federal funds, so you must use federal wage rates for construction. The grant limit is \$500,000.

If you can show that all or part of the project is for industrial development, you might qualify for an industrial development grant or loan. If your project is to address an emergency, such as replacing a broken sewer or water pump, you may qualify for a low interest loan from the Missouri Development Finance Board. You can apply for such loans through the CDBG Program.

2. USDA Rural Development (RD) (formerly Farmer's Home Administration), (573) 876-0995. RD provides grants and loans, loan guarantees and other assistance. Applications are accepted and funded throughout the year. There are three loan interest rate levels: poverty, intermediate and market. Rates are updated quarterly based on the 20 bond buyer index. The interest rate for a loan and eligibility for a grant are dependent upon the median household income of your community and several other factors. You must use state wage rates if you are organized as a municipality. Otherwise, wage rates are not required. It is RD's policy that you serve all residences in your community; however, RD will entertain requests for variances if costs are prohibitive. Unlike CDBG and Department of Natural Resources, unincorporated communities may qualify directly for RD funding.
3. Missouri Department of Natural Resources' (MDNR) Water Pollution Control Program, financial services section, (573) 751-1192. There is no low-to-moderate income requirement. The applicant must be a municipality such as a village, town, city or sewer district. The annual application deadline is November 15. Except for a few selected communities, you only need to use state wage rates, which state statutes require for all such municipal projects anyway.
 - A. 40 percent grants Cover 40 percent of the eligible cost of the project. Historically, \$3 million has been allocated state-wide each year which is usually enough for four to five projects. Individual grants are also limited to \$1 million. Eligibility is based upon environmental need, as determined by a priority points formula.
 - B. Direct loans (available to match certain 40 percent grant recipients only) and State Revolving Fund (SRF) leveraged loans - Interest rates are currently subsidized by 70 percent. In early 1997 the effective rate was 1.5 percent. So far, all qualified leveraged loan applicants have received requested funds. You may finance up to 100 percent of the eligible project costs with SRF leveraged loans or 60 percent with direct loans.
4. Missouri Department of Natural Resources' Technical Assistance Program, (TAP) local government assistance unit, (800) 361-4827 or (573) 526-6627. TAP provides planning, organization, financing, operations troubleshooting, administration and budget troubleshooting, and permitting assistance for communities.

5. Regional Planning Commissions and Councils provide planning, grant and loan application assistance and project administration. For the commission serving your community, call MDNR's Environmental Assistance Office at 1-800-361-4827 or (573) 526-6627.
6. Consulting Engineers Council of Missouri (CECMo), (573) 634-4080 provides guidance in selecting an engineer and referrals to consulting engineer firms.

What are your organizational options?

You may organize your community and finance your project in several different ways, depending on your current organizational structure:

1. If your community is outside the limits of an incorporated municipality (city, town or village), you may choose to remain outside of the municipality and self-finance the project with private loans and other funds, if possible. This works best for smaller projects when you want to remain independent from the municipality and also avoid state and federal government requirements. Developers of rural subdivisions can often make this option work. However, self-financing such projects for established communities usually is only practical for homeowners with higher incomes. In fact, many established communities need to build sewer projects now because developers used this method to build these communities in the first place.
2. If your community is close to, but outside the limits of a municipality, you may choose to be annexed by the municipality and have the municipality build sewers and other kinds of infrastructure improvements for you. When available, this is usually the cheapest, most effective way to build sewers and other improvements. It can also be the most expedient way for your community to manage and maintain the sewer system because the municipality does it for you. Within this option, there are two basic alternatives to handle costs of construction and costs to serve you, the new users:
 - A. The sewers could be built by the municipality at no charge to the new users, and the new users could pay the same user charge rates as old users. This method is most useful to larger cities with on going sewer construction programs, and in the case of involuntary annexations.
 - B. Alternatively, your community could be organized as a special assessment district or a neighborhood improvement district. Using the district, you would pay for the cost to construct the sewer project through special tax assessments. You, the users of the new system, would pay for use of the new system with user charge rates and special tax assessments based upon the cost to serve you, regardless of the rates the users of the current system pay. This is most useful for communities that add to their sewer systems in larger, less frequent increments rather than continuously.
3. If your community is outside the limits of any municipality, you could choose to organize as a subdistrict of a common sewer district or as a simple sewer district. Or, if a public water supply district serves your community, the water district could quickly and easily be modified to provide sewer service as well. You may also choose the option to organize as a neighborhood improvement district of your county. The common sewer district structure usually has the greatest latitude to build and finance projects cheaply and manage systems well.

You may desire to organize as one of these districts for various reasons, especially financial. In particular, the State Revolving Fund leveraged loan program is only available to applicants that are good credit risks. Generally that means they are long-standing municipal entities with populations over 1,000. Organizing as one of these types of districts may enable your community to improve its credit worthiness. This may enable you to obtain low rate financing that would otherwise not be available to you. This shifts some degree of financial risk from the community to the sewer or water district, or to the city or county in the case of a neighborhood improvement district. In exchange, the sewer project benefits the district, city or county through increased property values, increased tax receipts, and better managed community growth. Managed well, the district, city or county should also save you money on operating expenses due to economies of scale.

Except for neighborhood improvement districts, all of these districts are legal municipalities of the state capable of entering into contracts and functioning much like a municipality or county. Each can authorize or issue debt to finance projects. Neighborhood improvement districts are also municipalities, but their sole purpose is to authorize debt. They have no management function. Voters or real property owners of the district authorize the debt, but the bonds are issued by the municipality or county in which the district lies.

Some communities, especially small ones, may choose one of the district options just to avoid building, managing and maintaining a sewer system themselves. The financing may be no cheaper, but at least the community, or its individual property owners, will not be directly responsible for permitting, staffing and managing a wastewater system. That strategy is very important because getting the system built is just the start of a long endeavor.

For More Information

There are many options, and important reasons for choosing each one. To learn more about organizing and financing with such districts, contact the Department of Natural Resources' Environmental Assistance Office. Also request our guide, "Sewer Systems Organization and Financing."

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(www.dnr.state.mo.us/oac/env_assistance.htm) Program Home Page